Bank of Nova Scotia (TSX:BNS): The Best Big Bank to Own

Description

Canadian banks remain under pressure with choppy financial markets, a looming trade war, fears of a recession, and a softer domestic housing market weighing heavily on their outlook. Despite the difficult operating environment and considerable negative sentiment surrounding the big banks, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) recently reported some solid third-quarter 2019 results. Not only did this demonstrate that the bank has returned to delivering value for shareholders but that it possesses solid growth potential, and it will continue to reward investors over the long term.

Improved results

Scotiabank's third-quarter numbers included a healthy 9% year-over-year increase in adjusted net income to $2.5 billion on the back of yet another strong performance by the bank's international banking business. Adjusted net income for Scotiabank's international division soared by 14% compared to a year earlier to $815 million.

This was driven by robust credit growth in its core international operations in the Pacific Alliance nations of Mexico, Colombia, Peru, and Chile, where loans under management expanded by an impressive 41% year over year. That — combined with acquisitions made in Pacific Alliance countries since the end of the second quarter 2018 — boosted revenue by 26%, lifting the overall revenue for Scotiabank's international operations by 20%. Scotiabank's core Latin American business will perform strongly for at least the foreseeable future now that the region has returned to growth.

Heightened trade tensions between the U.S. and China will remain a key risk until the situation eases. This is because the economies of Peru, Chile, and Colombia are highly reliant on commodities — notably copper, gold, and petroleum — to drive economic growth. The outlook for base metals and crude remains under pressure because of the threat of a trade war, a weaker global economy, and the rising likelihood of a recession.

Nonetheless, growing populations, a rapidly expanding middle class, greater wealth, and the fact that those countries are underbanked will continue to drive growth for Scotiabank ion those nations.

Another development that had a tremendous positive influence on the latest results was Scotiabank's decision to divest itself of non-core, higher-risk, or underperforming businesses, as it tightens the focus of its international operations. Key was the recent decision to sell its operations in Puerto Rico and U.S. Virgin Islands for US$560 million. On closing, this will reduce Scotiabank's exposure to impaired loans while eliminating the risk of further credit losses because of the poor outlook for Puerto Rico's economy. The bank also claims that the deal will boost its financial strength, which is an important goal in the current uncertain operating environment.

Scotiabank is working on reducing its exposure to Thailand, where it has a 49% interest in **Thanachart Bank Public Company**. Heightened political and economic uncertainty have weighed heavily on the performance of banks in Thailand, making it an unattractive jurisdiction in which to operate.

A poor performance from Scotiabank's Global Banking and Markets division weighed on results. The segment's net income plunged by 15% year over year primarily because of a 13% drop in net fee and commission revenues. This can be blamed on weaker advisory and underwriting earnings because of reduced corporate actions due to heightened uncertainty over the outlook for financial markets and the global economy. Those risks will weigh on the performance of Global Banking and Markets for the foreseeable future.

As a result of this significant improvement in Scotiabank's performance, management elected to hike the dividend to $0.90 per share, which equates to an annual payment of $3.60 per share. This gives Scotiabank a juicy 5% dividend yield, which is the second highest among the Big Five banks.

Foolish takeaway

The impressive improvement in Scotiabank's third-quarter 2019 results confirms that it is making considerable headway in unlocking value from its operations. While there are many short- to medium-term headwinds ahead, the bank's international presence, quality loan portfolio, considerable growth potential, and juicy yield make it a must-own stock.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BNS (Bank Of Nova Scotia)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/07/02
Date Created
2019/08/31
Author
mattdsmith